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Message Text

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ACTION AF-10

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TO SECSTATE WASHDC 7672
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UNCLAS SECTION 1 OF 2 LAGOS 4293

E.O. 11652 : NA
TAGS : BGEN, EGEN, ECRP, NI
SUBJ : CERP 200: COMMISSIONER OF FINANCES FY 1978-79 BUDGET SPEECH

REF: LAGOS 4291

1. SELECTED HIGHLIGHTS FROM FEDERAL COMMISSIONER OF FINANCE OLULEYES APRIL 1 BUDGET STATEMENT FOLLOWS. TO AVOID REPETITION THIS SYNOPSIS WILL NOT INCLUDE SIGNIFICANT POINTS ALREADY REPORTED IN HEAD OF STATES BUEGET SPEECH.

2. ECONOMIC PROBLEMS-OLULEYE CITED THE FOLLOWING PROBLEMS PLAGUING THE NIGERIAN ECONOMY: SHORTAGE OF ESSENTIAL COMMODITIES, INFLATION, HIGH GOVERNMENT EXPENDITURES, UNEQUITABLE INCOME DISTRIBUTION, UNSATISFACTORY AGRICULTURAL AND INDUSTRIAL GROWTH, CONSPICUOUS CONSUMPTION OF IMPORTED CONSUMER GOODS, GOVERNMENT OVERDEPENDENCE ON PETROLEUM REVENUES WHICH HAVE BEEN DECLINING, AND GENERAL BALANCE OF PAYMENTS DETERIORATION.
3. GOVERNMENT POLICY OBJECTIVES: TO OVERCOME THE ABOVE PROBLEMS THE FMG WILL BE GUIDED BY THE FOLLOWING OBJECTIVES IN FY 1978-79:

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A. REORDER GOVERNMENT PRIORITIES TO ENSURE EFFICIENT UTILIZATION OF GOVERNMENT RESOURCES;
B. REDUCE GOVERNMENT SPENDING;
C. DIVERSIFICATION OF COUNTRYS RESOURCES TO AVOID OVERRELIANCE ON PETROLEUM SECTOR;
D. CONTINUE FIGHT AGAINST INFLATION;
E. REDISTRIBUTE INCOME TO ARREST APPARENT SOCIAL POLARIZAA

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TION";
F. STRIVE TOWARDS SELF-SUFFICIENCY IN FOOD AND AGRICULTURE PRODUCTION;
G. ENCOURAGE AND INCREASE LOCAL PRODUCTION;
H. SLOW DOWN FLOW OF IMPORRTS WHILE DIVERSIFYING EXPORT TRADE AWAY FROM PETROLEUM.

4. AGRICULTURE-TO CLARIFY PARA 12-5 REFTEL, INTEREST EARNED ON AGRICULTURAL LOANS AILL ENJOY CERTAIN TAX EXEMPTIONS WHICH WILL VARY WITH TIME WITH NO EXEMPTIONS UNDER TWO YEARS AND 100 PERCENT EXEMPTION FOR LOAN TERMS OVER 7 YEARS.

5. HOUSING-ALTHOUGH FEDERAL GOVERNMENT WILL DIRECTLY PROVIDE ONLY SMALL FRACTION OF HOUSING NEEDED, HOUSING WILL CONTINUE TO RECEIVE CREDIT ON FAVOURABLE TERMS. ALSO, INTEREREST ON LOANS FOR DEVELOPING OWNER OCCUPIED PROPERTY WILL BE TAX DEDUCTIBLE AND SUCH PROPERTIES WILL ALSO BE ELIGIBLE FOR CASH ALLOW-ANCES ON PROPERTY WVALUES UP TO 100,000 NAIRA.

6. MANUFACTURING-IN ORDER TO SLOW DOWN THE FOREIGN EXCHANGE DRAIN AND ENCOURAGE LOCAL MANUFACTURE, IMPORT DUTIES ON CON-SUMER GOODS AND CERTAIN RAW MATERIALS ARE BEING RAISED. TARIFF CHANGES AND IMPORT-EXPORT PROHIBITION DECREES REPORTED SEPTELS.

7. PRICE CONTROL-ALL PRICE CONTROLS HAVE BEEN LIFTED EXCEPT
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FOR THE FOLLOWING COMMODITIES: SALT, SUGAR, FLOUR, MILK, MATCHES, BICYCLES, MOTORCYCLES, MOTOR VEHICLES, AND PETROLEUM PRODUCTS.

8. TAXATION-(1) COMPANY TAXES(CORPORATE INCOME TAX) HAVE BEEN INCREASED FROM 45 TO 50 PERCENT EFFECTIVE APRIL 1, 1978. (2) ADVANCE TAX PAYMENTS--TAX ON INTERIM DIVIDENCDS MUST BE PAID 30 DAYS AFTER DECLARATION OF DIVIDENDS. ANY REFUNDS WILL BE RETURNED BY END OF ASSESSMENT YEAR.

9. AIRPORT TAXES AND HIGHWAY TOLLS-AIRPORT TAX HAS BEEN RAISED FROM ONE NAIRA TO FIVE NAIRA. THERE WILL BE HIGHWAY TOLLS IN THE FUTURE.

10. TAX CLEARANCE CERTIFICATE-ALL FIRMS, FOREIGN OR DOMESTIC, MUST BE READY TO PRODUCE A TAX CLEARANCE CERTIFICATE PRIOR TO ANY TRANSACTION WITH A GOVERNMENT AGENCY.

11. PORT DEVELOPMENT SURCHARGE-A SPECIAL 5 PERCENT DUTY WILL BE PAYABLE ON ALL IMPORTS TO AID IN DEVELOPMENT OF NIGERIAN AIR AND SEA PORTS.

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12. MONEY AND BANKING-THE MAIN OBJECTIVES OF THE
NIGERIAN MONETARY POLICIES IN 1978 AND 1979 ARE TO REDUCE
EXCESS LIQUIDITY, CUT IMPORTS OF UNESSENTIAL COMMODITIES
AND ENCOURAGE MORE EFFICIENT USE OF MONEY THROUGH A MORE
REALISTIC, I.E. HIGHER, INTEREST RATE STRUCTURE. THE
FOLLOWING SPECIFIC MONETARY MEASURES WILL BE PROMULGATED.

A. MAXIMUM RATE OF CREDIT EXPANSION FOR CREDIT AND LARGE
BANK TOTAL LOANS AND ADVANCES HAVE BEEN REDUCED FROM 30 TO 40 PERCENT
EXCEPT FOR NEW BANKS AND THOSE WITH LOANS OR ADVANCES NOT TO
EXCEED 100 MILLION NAIRA AS OF 3/31/78. LATTER BANKS MAY BE
PERMITTED BY CENTRAL BANK TO EXPAND CREDIT UP TO 40 PERCENT
ANNUALLY.
B. WITH START OF NEW FISCAL YEAR NEW BANKS ARE REQUIRED TO
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PUT & PERCENT OF LOAN ADVANCES IN AGRICULTU$AL SECTOR AND 32PERCENT I
N
MANUFACTURING. CREDIT ALLOCATION FOR
IMPORTS HAS BEEN REDUCED FROM 10 TO 8 PERCENT. BANKS FAILING TO
COMPLY WITH THESE REGULATIONS MUST DEPOSIT SHORTFALL IN NON-
INTEREST BEARING ACCOUNT AT CENTRAL BANK.

C. IMPORTERS MUST NOW MAKE 100 PERCENT ADVANCE DEPOSIT FOR LETTERS
OF CREDIT ON ALL IMPORTS EXCEPT CAPITAL GOODS, RAW MATERIALS,
MEDICAL SUPPLIES AND FOOD ITEMS.

D. BANKS MUST NOW LOAN 60 PERCENT OF ALL COMMERCIAL BANKING CREDIT
TO INDIGENOUS BORROWERS, I.E. TO NIGERIAN CITIZENS OR THOSE
FIRMS WHO HAVE AT LEAST 50 PERCENT NIGERIAN OWERSHIP.

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E. THERE WILL BE A SPECIAL 10 PERCENT TAX ON EXCESS BANKING PROFITS IN ADDITION TO THE STANDARD COMPANY INCOME TAX. EXCESS PRODIT IS CALCULATED BY ASSUMING THE FOLLOWING TO BE MAXIMUM NORMAL PRODITS: PAID UP CAPITAL 40 PERCENT GENERAL RESERVES 20 PERCENT AND LONG TERM LOANS 20 PERCENT.

F. INTEREST RATES HAVE RAISED ACROSS THE BOARD. REPRESEN-TATIVE NEW RATES INCLUDE MINIMUM REDISCOUNT RATE 5 PERCENT, 2 YEAR TREASURY CERTIFICATES 4 AND 5/8 PERCEN, SAVINGS DEPOSITS 5 PERCENT MAXIMUM LENDING RATES 11 PERCENT, MINIMUM LENDING RATE 7 PERCENT. INSURANCE COMPANY LENDING RATES 7 TO 11 PERCENT.

13. FOREIGN EXCHANGE CONTROL POLICY MEASURES-THE NIGERIAN FOREIGN EXCHANGE BUDGET FOR FY 1978-79 HAS BEEN PEGGED AT 6,446 MILLION NAIRA WHICH IS CONSIDERABLE REDUCTION FROM LAST YEARS ACTUAL NAIRA 7,700 MILLION DISBURSEMENT. IN ADDITION TO NEW IMPORT RESTRICTIONS AND HIGHER TARIFFS, THE GOVERNMENT IS INSTITUTING OTHER EXCHANGE CONTROLS MEASURES INCLUDING RE-DUCTIONS IN, MEDICAL TRAVEL ALLOWANCES AND PRE-PAYMENTS FOR SAMPLE GOODS.

14. STATE GOVERNMENT FINANCES-OLULEYE ANNOUNCED THAT THE STATE GOVERNMENTS COLLECTIVELY RAN A RECURRENT AND CAPITAL BUDGET
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DEFICIT LAST YEAR OF ABOUT 1.5 BILLION NAIRA AND INSTRUCTED STATE GOVERNMENTS TO THEIR INTERNAL REVENUE BASE,
STRENGTHEN THEIR TAX COLLECTION MECHANISMS, AND TIGHTEN THEIR BUDGETS. COMMISSIONER ALSO SAID THAT THE FEDERAL GOVERN-MENT WOULD BE A DIMINSHING REVENUE SOURCE FOR STATE GOVERNMENTS.

HE ANNOUNCED A FEDERAL STATUTORY ALLOCATION TO ALL THE STATES OF NAIRA 1.67 BILLION, A 11 PERCENT DECREASE FROM THE 1.8 BILLION NAIRA APPROPRIATION LAST YEAR. NONSTATUTORY ALLOCATIONS TO THE STATES WILL BE 800 MILLION NAIRA. A SPECIAL ALLOCATION OF 400 MILLION NAIRA WILL BE ALLOCATED TO HELP THE STATES FINISH APPROVED DEVELOPMENT PROJECTS. FINANCIAL BREAKDOWN OF BUDGET BY MINISTERIAL ALLOTMENT HAVE BEEN SENT SEPTEL. ANALYSIS OF OLULEYES AND OBASANJOS SPEECHES WILL BE SENT ASAP.
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